


**Annual
Report
1978**

AR26



STERLING TRUST CORPORATION



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Highlights

	1978	1977
Total Assets	\$289,813,000	\$240,474,000
Shareholders Equity	\$ 12,874,000	\$ 9,982,000
Per Share	11.53	10.52
Net Earnings	\$ 1,677,000	\$ 1,455,000
Per Share	1.72	1.67
Guaranteed Trust Account	\$272,679,000	\$225,796,000
Mortgage Loans	\$247,115,000	\$199,291,000

Report to Shareholders:



The year 1978 presented a very difficult environment for your Corporation. A rapid succession of interest rate increases culminated at year end in a turmoil of record rates, continued high inflation, high unemployment and international uncertainty about Canada's economy as reflected in the sinking exchange value of our dollar.

I am pleased to report that, despite this environment, your Corporation maintained its growth, with total assets reaching \$290 million, an increase of \$49 million or 20%. Net earnings for the year were \$1,677,000 as compared with \$1,455,000 an increase of 15%. Earnings on a per share basis were \$1.72 (adjusted for the issue of additional common shares) as compared with \$1.67 for 1977. This performance was accomplished in the face of intense competition for mortgages, higher provisions for mortgage losses and higher costs for demand deposits. The latter resulted in an increased expense of approximately \$235,000. The higher provision for mortgage losses relates to a large extent to certain problems in our mortgage lending. It is management's opinion that this provision is adequate for any losses that may result having regard to all the circumstances. Your Corporation also bore the additional dividend expense

of \$53,500 in relation to the issue of \$1,000,000 of Series B, preferred shares necessitated by capital requirements.

To offset the effect of increased costs, further expansion of the Corporation's branch system was limited in 1978 to the opening of a full service branch in Owen Sound, a mortgage lending office in Oshawa and a full service branch on the ground floor of the Sterling Trust Head Office.

The Corporation was able to attract some additional well-qualified personnel during 1978 including Mr. Jack McCreadie, A.A.C.I., F.R.I., who was appointed to the post of Vice-President Mortgages. Other appointments during the year included William L. Henderson, F.C.G.A., to the position of Vice-President Finance and Treasurer, Dennis W. Jones, F.C.I.S., to Director Trust Services and James A. Shute to Director of Branches and Personnel.

Your Corporation's management views 1979 with a feeling of mild optimism, in the hope that the costs associated with high interest rates are temporary. The Corporation is, however, sensitive to the generation of good quality mortgage product. The continued expansion of our mortgage lending in the area of commercial and industrial loans, must be maintained if our objectives are to be achieved.

Our optimism is evidenced by the extra 5¢ per common share dividend paid out at year end. The current quarterly dividend rate of 12¢ per share may again be supplemented in 1979 if satisfactory earnings are achieved.

The above achievements were a direct response by your Corporation's employees to the challenges of the times. They deserve the pride of accomplishment.

A handwritten signature in dark ink, appearing to read 'F. R. Hewett'.

F. R. Hewett
President

309 King St.,
Midland



1000 Second Ave. E.,
Owen Sound



331 Bayfield St.,
Barrie



16 Dunlop St. E.,
Barrie



1 Yonge St. S.,
Aurora



Head Office
220 Bay St.,
Toronto



347 Bay St.,
Toronto



214 Bay St.,
Toronto



Sterling Trust Corporation

Consolidated Statement of Earnings

For the year ended December 31, 1978
with comparative figures for 1977

Revenue:	1978	1977
Income from mortgages and other loans	\$26,294,000	\$21,714,000
Income from securities	1,413,000	1,322,000
Fees and commissions	805,000	632,000
Other operating revenue	509,000	391,000
Total revenue	<u>29,021,000</u>	<u>24,059,000</u>
Expenses:		
Interest on guaranteed account	21,324,000	17,474,000
Interest on loans and mortgages	230,000	287,000
Salaries and staff benefits	2,717,000	2,228,000
Premises, including depreciation of \$137,000 (1977 — \$102,000)	780,000	757,000
Other operating expenses (note 6)	1,913,000	1,241,000
Total expenses	<u>26,964,000</u>	<u>21,987,000</u>
Operating income	2,057,000	2,072,000
Gain on sale of securities	120,000	33,000
Income before income taxes	<u>2,177,000</u>	<u>2,105,000</u>
Income taxes — current	358,000	439,000
— deferred	142,000	211,000
	<u>500,000</u>	<u>650,000</u>
Net earnings for the year	<u>\$ 1,677,000</u>	<u>\$ 1,455,000</u>
Earnings per share (note 7)	<u>\$ 1.72</u>	<u>\$ 1.67</u>

See accompanying notes to consolidated financial statements.



Bracebridge
Shopping Centre
Bracebridge



73 Mississaga St. E.,
Orillia



Orillia Square
Orillia



Lindsay Square Mall
Lindsay



721 Davis Drive
Newmarket



1 Brock St. E.,
Uxbridge



72-C Main St. N.,
Markham



74 King Street W.,
Oshawa

Handwritten notes: 1020, 120, 29, 0.52

309 King St.,
Midland



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Toronto



Sterling Trust Corporation Consolidated Balance Sheet

December 31, 1978
with comparative figures for 1977

	1978	1977
Assets		
Cash and fixed term deposits (note 2)	\$ 15,850,000	\$ 14,449,000
Securities (note 3):		
Bonds	2,723,000	7,401,000
Stocks	14,355,000	10,790,000
Total securities	17,078,000	18,191,000
Loans:		
Mortgages	247,115,000	199,291,000
Loans on securities	4,296,000	4,621,000
Consumer loans	1,622,000	938,000
Total loans	253,033,000	204,850,000
Office premises and equipment at cost, less accumulated depreciation \$396,000 (1977 — \$259,000)	3,177,000	2,930,000
Other assets	675,000	54,000
	<u>\$289,813,000</u>	<u>\$240,474,000</u>

See accompanying notes to consolidated financial statements.

We certify to the best of our knowledge and belief the foregoing consolidated balance sheet is correct and shows truly and clearly the financial condition of the Corporation's affairs.

F. R. Hewett, President

W. L. Henderson, F.C.G.A.,
Vice-President, Finance

T. G. Taylor, Managing Director

Guaranteed account:

Savings deposits	\$ 41,168,000	\$ 33,269,000
Guaranteed investment certificates	231,511,000	192,527,000
Total guaranteed account	272,679,000	225,796,000
Income taxes payable	47,000	153,000
Accounts payable	229,000	224,000
Dividends payable	204,000	112,000
Loans and mortgages payable	2,016,000	2,528,000
Deferred income taxes	1,764,000	1,679,000
Shareholders' equity:		
Capital stock (note 4):		
Preference shares	2,000,000	1,000,000
Common shares	1,887,000	1,707,000
Contributed surplus	2,263,000	1,614,000
General reserve	5,100,000	4,500,000
Retained earnings	1,624,000	1,161,000
Total shareholders' equity	12,874,000	9,982,000
	\$289,813,000	\$240,474,000

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Sterling Trust Corporation as at December 31, 1978 and the consolidated statements of earnings, contributed surplus, general reserve and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
February 2, 1979

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants



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Shopping Centre
Bracebridge



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Orillia



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Toronto



Sterling Trust Corporation Consolidated Statements of Contributed Surplus, General Reserve and Retained Earnings

For the year ended December 31, 1978
with comparative figures for 1977

	1978	1977
Contributed surplus:		
Balance at beginning of year	\$1,614,000	\$1,614,000
Proceeds in excess of par value of capital stock issued during year	649,000	—
Balance at end of year	<u>\$2,263,000</u>	<u>\$1,614,000</u>
General reserve:		
Balance at beginning of year	\$4,500,000	\$3,900,000
Add transfer from retained earnings	600,000	600,000
Balance at end of year	<u>\$5,100,000</u>	<u>\$4,500,000</u>
Retained earnings:		
Balance at beginning of year	\$1,161,000	\$ 716,000
Add net earnings for the year	1,677,000	1,455,000
	<u>2,838,000</u>	<u>2,171,000</u>
Deduct:		
Transfer to general reserve	600,000	600,000
Dividends	614,000	410,000
	<u>1,214,000</u>	<u>1,010,000</u>
Balance at end of year	<u>\$1,624,000</u>	<u>\$1,161,000</u>

See accompanying notes to consolidated financial statements.

Sterling Trust Corporation
Notes to Consolidated Financial Statements
December 31, 1978

Sterling Trust Corporation is a federally incorporated trust company subject to the Trust Companies Act.

1. Summary of significant accounting policies:

(a) Basis of consolidation:

The financial statements include the accounts of a wholly-owned subsidiary company.

(b) Securities:

Securities issued by the Government and Provinces of Canada are stated at amortized cost. Other securities are stated at cost. Gains and losses are recorded upon sale of securities except where there is a decline in value which is other than temporary at which time an appropriate write down is made.

(c) Mortgage loans:

Mortgage loans are stated at amortized cost less a provision for losses.

(d) Office premises and equipment:

Office premises, equipment, furniture and fixtures and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation is provided on the straight-line method at the following annual rates:

Buildings	5%
Equipment	20%
Furniture and fixtures	10%

Leasehold improvements are being amortized on the straight-line basis over the existing lease term plus the first renewal option period.

(e) Income taxes:

Income taxes are provided on reported income in accordance with the deferral method of tax allocation. Under this method, timing differences between reported and currently taxable income are provided for in the form of deferred income taxes.

(f) Revenue and expenses:

Investment income and interest expense are recorded on the accrual basis. Fees and commissions are generally recorded as earned except for certain fees from estates and trusts which are included in income only upon final approval, usually by the courts.

(g) Changes in account classification:

Comparative figures for 1977 have been reclassified to reflect the disclosure adopted in 1978.

2. Cash and fixed term deposits:

Fixed term deposits with maturity terms in excess of one year amount to \$8,945,000 (1977 — \$8,925,000). All such deposits have encashable provisions.

3. Securities:

Cost and market values, at December 31, 1978 are:

	1978		1977	
	Cost	Market (in thousands of dollars)	Cost	Market
Bonds — Government of Canada	\$ 861	\$ 852	\$ 5,528	\$ 5,496
Provinces of Canada	1,225	1,065	1,070	926
Municipalities	169	156	241	230
Other	468	408	562	509
	<u>2,723</u>	<u>2,481</u>	<u>7,401</u>	<u>7,161</u>
Stocks	14,355	14,674	10,790	11,040
	<u>\$17,078</u>	<u>\$17,155</u>	<u>\$18,191</u>	<u>\$18,201</u>

4. Capital stock:

(a) Authorized, issued and fully paid:

Cumulative redeemable preference shares, of \$20 par value each, issuable in series. Authorized	Number of shares		Amount (in thousands of dollars)	
	1978	1977	1978	1977
	<u>500,000</u>	<u>500,000</u>	<u>\$10,000</u>	<u>\$10,000</u>
Issued and fully paid:				
Series A	50,000	50,000	\$ 1,000	\$ 1,000
Series B	50,000	—	1,000	—
	<u>100,000</u>	<u>50,000</u>	<u>\$ 2,000</u>	<u>\$ 1,000</u>

Common shares of \$2 par value each.

Authorized	2,000,000	2,000,000	\$ 4,000	\$ 4,000
Issued and fully paid	<u>943,519</u>	<u>853,657</u>	<u>\$ 1,887</u>	<u>\$ 1,707</u>

(b) Terms of issue:

Preference shares:

Each series of preference shares outstanding is subject to separate terms and conditions as follows:

(i) Dividend:

The dividend rate for each series is equal to the sum of one half of bank prime in effect from time to time plus:

: for Series A — three per cent (3%) per annum

: for Series B — two and one-half per cent (2½%) per annum.

(ii) Redemption:

The Corporation has agreed to redeem these shares in the following amounts:

	Series A	Series B	Total
	(in thousands of dollars)		
1981	\$ 33	\$ —	\$ 33
1982	67	33	100
1983	100	67	167
1984 - 1987	800	900	1,700
	<u>\$1,000</u>	<u>\$1,000</u>	<u>\$2,000</u>

The Corporation has an option to redeem all or any portion of the shares outstanding from time to time which expires July 31, 1986 as to Series A and July 31, 1987 as to Series B.

(c) Changes in capitalization:

Preference shares:

During the year 50,000 Series B shares were issued for cash of \$1,000,000.

Common shares:

During the year warrants for the purchase of 66,660 common shares at \$9.00 per share were exercised for cash of \$599,940.

During the year options to employees for the purchase of 23,202 common shares at \$9.88 per share were exercised for cash of \$229, 236. All remaining options outstanding at December 31, 1977, being 11,413 common shares at \$9.88 per share, have been forfeited.

During 1978 the Corporation granted further options to employees totalling 34,262 shares at \$10.96 per share which expire on October 6, 1979.

5. Contractual obligations:

The Corporation has contractual obligations in respect of leases as follows:

1979	\$279,000
1980 to 1983	466,000
1984 to 1988	63,000
	<u>\$808,000</u>

6. Provision for mortgage loan losses:

Included in other operating expenses is a provision for mortgage loan losses in the amount of \$412,000 (1977 — \$126,000).

7. Earnings per share:

Earnings per share are based on the weighted average of shares outstanding during the year and are after the dividend requirement of \$131,557 in 1978 on the preference shares Series A and Series B and \$29,346 in 1977 on the preference shares Series A. The exercise of options outstanding would not materially dilute earnings per share.

8. Directors and officers remuneration:

The aggregate direct remuneration paid or payable by the Corporation to directors and senior officers during the year was \$288,519 (1977 — \$264,918).

BRACEBRIDGE



Bracebridge
Shopping Centre
Bracebridge



73 Mississauga St. E.,
Orillia



Orillia Square
Orillia



Lindsay Square Mall
Lindsay

LINDSAY



721 Davis Drive
Newmarket

NEWMARKET



1 Brock St. E.,
Uxbridge

UXBRIDGE



72-C Main St. N.,
Markham

MARKHAM

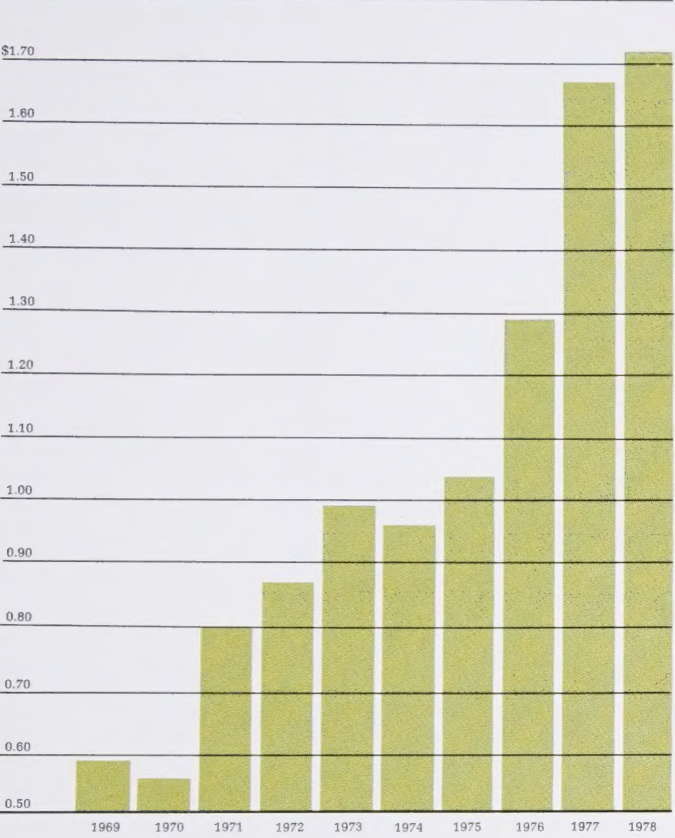
OSHAWA



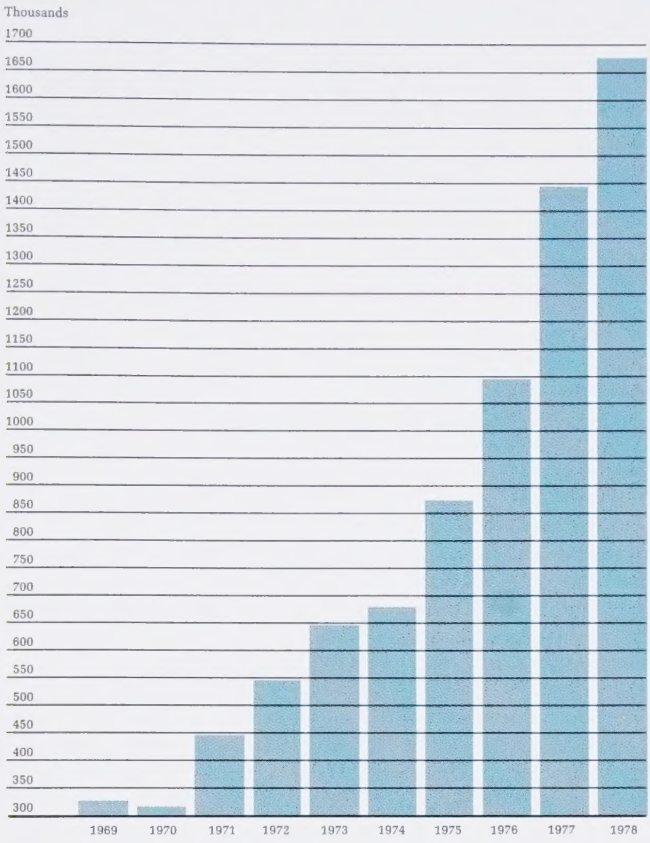
74 King Street W.,
Oshawa

LAKE ONTARIO

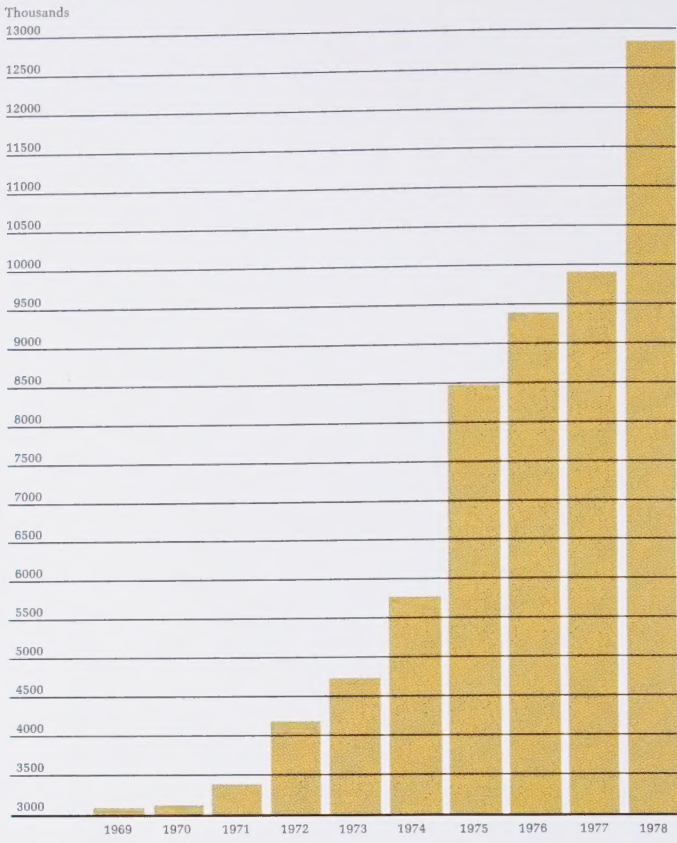
Earnings per share



Net Profit After Taxes



Capital and Reserves

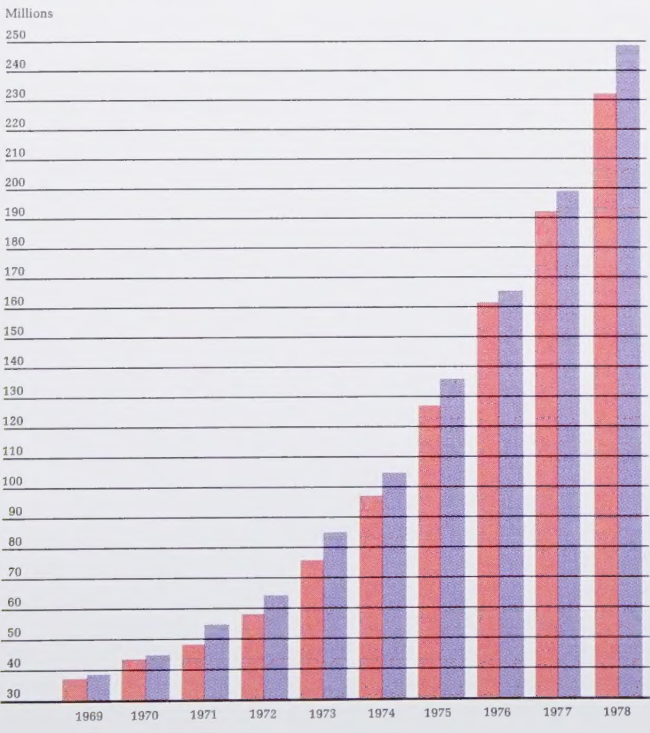


Equity per share December 31

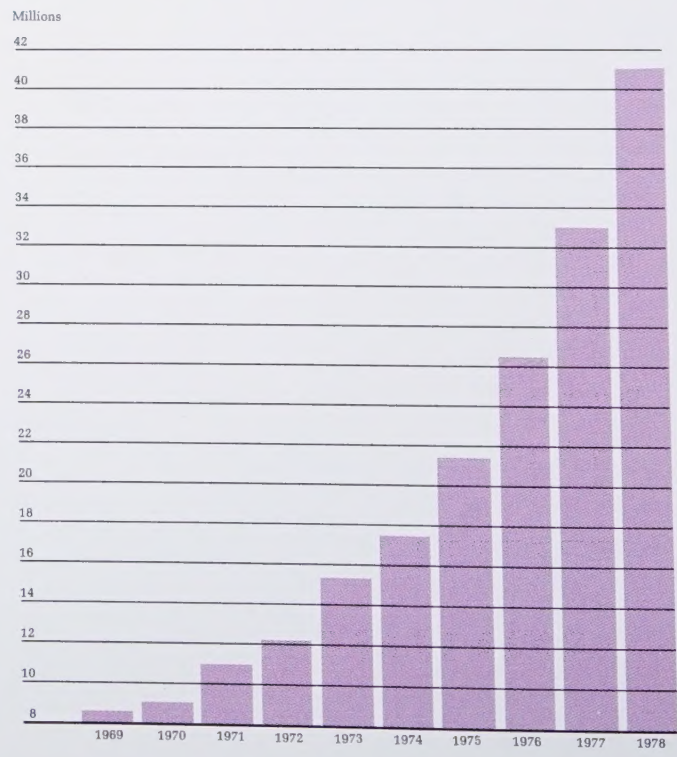


Guaranteed Investment Certificates

Mortgages



Savings Deposits



Directors

- *S. Bruce Adams, F.C.A.
Toronto, Ont.
- *Norman H. Bell
Toronto, Ont.
- Robert J. Birtles
Toronto, Ont.
- *James W. Blaney, Q.C.
Toronto, Ont.
- Horace T. Burgess
Toronto, Ont.
- *Peter O. Crassweller, M.D.,
F.R.C.S. (C) F.A.C.S.
Toronto, Ont.
- Robert I. Hendy, Q.C.
Toronto, Ont.
- *F. Robert Hewett
Toronto, Ont.
- H. Donald Langdon, Q.C.
Toronto, Ont.
- Charles F. Petersen
Toronto, Ont.
- Niels F. Petersen, C.T.C.I.
Toronto, Ont.
- T. Gordon Taylor, M.T.C.I.
Toronto, Ont.
- Arthur W. White
Toronto, Ont.
- J. Alex Wilson, B.A. Sc., P.Eng.
Orillia, Ont.

*Members of the Audit Committee

Officers

- Niels F. Petersen, C.T.C.I.
Chairman of the Board
- F. Robert Hewett
President
- W. L. Henderson, F.C.G.A.
Vice-President, Finance
& Treasurer
- Jack McCreddie, A.A.C.I.,
F.R.I., S.R.P.A.
Vice-President, Mortgages
- Charles F. Petersen
Vice-President Operations
- Horace T. Burgess
Vice-President
- H. Donald Langdon, Q.C.
Vice-President
- T. Gordon Taylor, M.T.C.I.
Managing Director
- Dennis W. Jones, F.C.I.S., F.T.C.I.
Director of Trust Services
- James A. Shute
Director of Branches & Personnel
- Fred C. Beveridge, M.T.C.I.
Secretary

Auditors

Peat, Marwick, Mitchell & Co.

Head Office

220 Bay St., Toronto
M5J 2K8/364-7495

Branches

- 1 Yonge St. S., Aurora
L4G 1L8/727-1328
- 16 Dunlop St. E., Barrie
L4M 1A3/726-6495
- 331 Bayfield St., Barrie
L4M 3C2/726-7315
- Bracebridge Shopping Centre
Bracebridge
P0B 1C0/645-5219
- Lindsay Square Mall
Lindsay, Ontario
K9V 4Z1/324-7262
- 72-C Main St. N., Markham
L3P 1X5/294-3207
- 309 King St., Midland
L4R 4P4/526-3768
- 721 Davis Dr., Newmarket
L3Y 2R2/898-2700
- 73 Mississauga St. E., Orillia
L3V 6J3/325-2226
- Orillia Square, Orillia
L3V 6H4/325-2373
- 74 King Street W., Oshawa
L1H 1A6/571-1732

1000 Second Ave. E., Owen Sound
N4K 2H6/376-2740

214 Bay St., Toronto
M5J 1P1/364-7495

347 Bay St., Toronto
M5H 2R7/363-6341

1 Brock St. E., Uxbridge
L0C 1K0/852-3383



